February 16, 2001

Subject: Cal-ISO Path 15 Upgrade Cost Analysis Study

The Cal-ISO performed an assessment of congested paths as part of the 2000 ISO Control Area Expansion Plan Study. The assessment consisted of reviewing congestion costs associated with the ISO forward market and real-time operations. Not surprisingly, the initial results of the assessment identified Path 15 as having a high impact on reliability of the grid and has led to increased overall costs of energy and Ancillary Services to the California consumers. This detailed analysis included the forward market costs, the costs associated with real-time operations, and the Ancillary Service costs associated with Path 15 congestion.

The two time periods that were studied were from 9/1/99 to 8/31/00, and the second from 9/1/00 to 12/31/00. Two time periods were studied to demonstrate the costs for one complete year, and then another study was performed during the latest time that typically has the most Path 15 congestion. The report describes the results and applied methodologies for analyzing the costs associated with the Path 15 congestion. In summary, there is a substantial cost to load due to the congestion on Path 15 for the state of California up to $221.7 Million for the study period of 16 months. The results support and justify a Path 15 transmission upgrade to alleviate the Path 15 congestion costs to the consumers of the state of California, increase reliability to Northern California customers, facilitate seasonal energy exchange, and effectively utilize the proposed generation in California.

The Cal-ISO has meet with PG&E and Market Participants to discuss in detail the methodology outlined in this report and the impact that Path 15 has had on the operation of the grid and the increased cost to the California consumers. PG&E has agreed to proceed with the permitting work required to install a new 500 kV line between its Los Banos and Gates substations along with associated equipment.

Please contact me at (916) 351- 2140 or Mark Willis at (916) 351-2196 for further information.

Sincerely,

Ziad Alaywan

Managing Director of Engineering